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U.S. Firm, China Sign Potash Deal

By Ian Berry

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Denver-based Prospect Global Resources Inc. reached a \$2 billion agreement to deliver potash to a Chinese chemical company in a deal for twice last year's U.S. exports of the fertilizer ingredient.

Under the agreement, Sichuan Chemical Industry Holding Co. will buy at least 500,000 metric tons, or 550,000 short tons, of potash annually over 10 years starting in late 2015, the companies said.

The agreement, set to be announced Monday, illustrates how demand from China is reshaping the market for agricultural goods. The U.S. last year exported 215,000 metric tons of potash, which is used to make potassium fertilizer for corn and other crops.

The deal has challenges. The potash would come from deposits that Prospect Global and two other small miners are developing near Holbrook, Ariz. Prospect Global still needs to secure government permits and to raise hundreds of millions of dollars to bring the project forward and start production by late 2015.

Mining companies from Saskatchewan to Ethiopia are racing to develop more potash as growing demand for food in China and India helps drive crop prices to records and fuels the need for fertilizer. China is the world's largest potash consumer but imports most of what it needs. Prospect Global and other firms are eager to show that they have customers lined up so the potash producers can get investors.

Prospect Global has spent about \$75 million of the roughly \$1 billion it will cost to develop the Arizona mine, said Devon Archer, a Prospect Global director who led the company's negotiations with state-owned Sichuan Chemical. Prospect Global hopes the deal will improve its ability to attract capital, possibly from banks in China, he said.

"We're aligning ourselves with the food security of China," he said.

Geologists have said the Arizona project could hold as much as 2.5 billion tons of potash, and Prospect Global expects to produce two million tons a year.

Global production of potash is nearly 60 million tons a year. The market is dominated by Belarussian Potash Co. and Canpotex, a Canadian export venture formed by Mosaic Co., Agrium Inc. and Potash Corp. of Saskatchewan . The biggest U.S. potash maker is Intrepid Potash Inc., which operates mines in New Mexico and Utah.

Canpotex's contracts with Chinese buyers, which generally cover six months, typically are seen as a global benchmark for the fertilizer market. But Canpotex and its Chinese clients are in a standoff over prices.

Despite strong demand, the potash market won't grow fast enough to accommodate all the smaller miners trying to ramp up production, Dahlman Rose analyst Charles Neivert said before the Prospect Global deal was known. Success will depend on being "first out of the block," he said.

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